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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [EAGR](#) [ELAB](#) [EFIN](#) [TW](#) [CH](#)
SUBJECT: CEPD CHAIRMAN SURVEYS BLEAK ECONOMY IN FEBRUARY 18
MEETING WITH DIRECTOR

REF: A. TAIPEI 59 (NOTAL)
[1](#)B. TAIPEI 170

Classified By: Stephen M. Young, AIT Director, for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY. In a February 18 meeting with the Director, Council for Economic Planning and Development (CEPD) Director Chen Tain-jy said exports will be a key indicator in determining when Taiwan's economy has bottomed out, and noted that recent upticks in short term export orders may be a hopeful sign. Chen said the Ma administration is ready to support consolidation of Taiwan's struggling DRAM sector, but indicated various options are still under consideration. He indicated that Taiwan's employment situation will deteriorate as new university graduates have trouble finding jobs, even as Taiwan businesspeople in China return home to look for work. Rising unemployment has not resulted in a serious backlash against Taiwan's foreign workers, he noted. Chen said PRC incentives for purchase of consumer electronics are boosting Taiwan's battered LCD sector, and maintained that direct cross-Strait shipping links will help Taiwan keep its LCD cluster (including a major Corning substrate production line) in the face of Chinese efforts to lure the industry across the Strait. The Director expressed appreciation for the CEPD's ongoing support of AIT's regulatory reform and market access efforts, and stressed the ongoing importance of promptly opening Taiwan's market to the full range of U.S. beef imports. END SUMMARY.

PARTICIPANTS

[1](#)2. (SBU) The meeting took place at the CEPD on February 18.

CEPD Chairman Chen Tain-jy was accompanied by CEPD Center for Deregulation and Innovation Director (CDID) Zuo Heng and other CDID staff members. The Director was joined by Economic Chief (notetaker).

LOOKING FOR AN EXPORT TURNAROUND

13. (C) Chen observed that Taiwan's year-on-year (yoy) exports have been declining at an accelerating rate since September 2008. January exports registered an approximately 44% drop, he noted. Chen said he would look for a stabilization in monthly export figures as a sign that Taiwan's economy may be bottoming out. February figures may look better, he continued, although results could be skewed by the fact that the annual Lunar New Year export slowdown took place in February of 2008, but fell in January this year. As a result, said Chen, the March export numbers will be an important indicator of whether Taiwan's economy is beginning to turn the corner. Chen noted that electronics account for 40% of Taiwan's exports. Since the advent of the global slowdown, many customers have stopped the usual practice of placing orders several months in advance. Instead, explained Chen, buyers are making decisions only a few weeks in advance, and such short term orders have recently showed hopeful signs of an uptick.

DRAM INDUSTRY PROSPECTS

14. (C) According to Chen, Taiwan's beleaguered DRAM industry (ref a) is unlikely to rebound this year, and the recently-announced bailout of chip maker ProMos technologies will not be enough to help turn the sector around. Chen said the Ma administration is "ready to help (DRAM) companies consolidate," including with foreign partners Micron of the U.S. and Elpida of Japan. Elpida may not be as financially healthy as Micron, he noted, but enjoys a close partnership with Taiwan's Powerchip Semiconductor. Foreign investors, he observed, want to combine their advanced technology with Taiwan's strength in manufacturing. Chen predicted that the DRAM sector may consolidate around two camps controlled by Elpida and Micron, respectively, although he added that Micron has also prepared a plan to consolidate all Taiwan's DRAM firms into one company. Chen also noted that Formosa Plastic's Nanya chip maker is in solid financial position.

DETERIORATING EMPLOYMENT SITUATION

15. (C) Chen said the December 2008 unemployment rate of 5.03% will rise as declining exports begin to take their toll on employment. The economy has to absorb over 200,000 new college graduates each year, he noted, adding that young men can be particularly "dangerous" to society if they are unable to find jobs. As a result, Taiwan must develop "a special program" to provide jobs for unemployed graduates. Declining demand for Chinese exports has disproportionately affected Taiwan businesspeople in the PRC, continued Chen. Many of these businesspeople are returning to Taiwan, he observed, but Taiwan "has nothing to offer them" in terms of employment. According to Chen, Taiwan entrepreneur Terry Gou's Hon Hai Precision technology group, known on the Mainland as Foxconn, is "one of the hardest hit" by the global downturn. Chen said Gou is now fighting a legal battle in the PRC over stolen intellectual property rights, a struggle made more difficult by lack of impartiality in the Chinese legal system.

CHINA'S FUTURE AS AN EXPORT BASE FOR TAIWAN FIRMS

16. (C) Responding to the Director's question about the economic downturn's impact on the cross-Strait economic agenda, Chen expressed concern that a protracted decline in China's economy could prompt Taiwan investors to determine that China is no longer the best export platform from which to penetrate global markets. "In general, I think exports, the mainstay of Taiwan's business in China, will decline substantially," prompting Taiwan firms to move to lower-cost export platforms such as Vietnam and Bangladesh.

EFFECT OF CHINESE SUBSIDIES ON TAIWAN LCD INDUSTRY

17. (C) Chen also highlighted China's efforts to use its domestic market to attract high-technology Taiwan investors. The PRC, he explained, is trying to increase the diffusion of televisions and other consumer electronic products among rural Chinese. As part of this effort, the Chinese government is offering subsidies for targeted consumers to buy such products, thereby benefiting Taiwan LCD and other manufacturers whose components go into consumer electronics. Chen said he believes Taiwan's LCD industry is "strategic" (note: Vice President Siew declined to characterize the LCD sector in the same way during a recent meeting with the Director; see ref b). Chi Mei and AUO, Taiwan's major producers, are well-managed and have good technology, but suffer from not having their own brands for finished products. The PRC government is offering Taiwan's LCD companies a market, noted Chen, but the Chinese want to develop their own brands. China's ultimate goal, he continued, is to move the entire LCD industry from Taiwan to the Mainland, as has already happened with notebook computers. Direct cross-Straits shipping links, however, are helping to supply the Mainland market while keeping the LCD production cluster in Taiwan. The Director noted that Corning, whose two LCD production facilities make it the largest U.S. investor in Taiwan, is keenly interested in the health of Taiwan's LCD sector.

FINANCIAL SECTOR REMAINS SOUND

18. (C) Referring to his recent meeting with Financial Supervisory Commission (FSC) Chairman Sean Chen (septel), the Director observed that strong capital adequacy ratios appear to reflect the underlying viability of Taiwan's financial system. Chen agreed, stating that Taiwan's financial institutions are "relatively healthy" and enjoy adequate capital and liquidity. A declining interest rate spread, however, is hurting bank profitability.

NO MAJOR BACKLASH AGAINST FOREIGN WORKERS

19. (C) According to Chen, rising unemployment has thus far resulted in little backlash against Taiwan's roughly 365,000 foreign workers. About half of the total are domestics and caregivers, primarily from Indonesia, Vietnam, and the Philippines. Most of these workers are female, and their employment conditions and tenure in Taiwan are heavily regulated. The other, mostly male, half of the foreign worker group is in the industrial sector, and is the first to be laid off when business slows. Some of these workers, said Chen, do not have enough money to return home, and/or prefer to stay in Taiwan and look for work.

SUPPORT FOR REGULATORY REFORM

110. (C) The Director expressed appreciation for CEPD's support of an ongoing series of regulatory workshops held under the Taiwan Competitiveness Forum rubric. A workshop on pharmaceutical market access took place on February 17, and a session to discuss relaxing retail sector restrictions is slated for March 3. Chen encouraged AIT to continue its support for efforts to relax trade barriers and improve Taiwan's investment climate, a process he said is important in strengthening the economy's overall competitiveness.

BEEF MARKET ACCESS

111. (C) As the meeting ended, the Director stressed continued U.S. interest in Taiwan promptly opening its market to the full range of U.S. beef imports. The Department of Health has published a risk assessment report stating that U.S. beef meets OIE health standards and is safe for human consumption. The Director urged Chen to lend his support to Minister of Health Yeh and others in the administration who are spearheading Taiwan's risk communication effort on U.S. beef. There is a clear scientific basis establishing the safety of U.S. beef, said the Director, and opening Taiwan's market is the next critical step. Chen agreed with the Director's

emphasis on the importance of resolving the beef issue.

¶12. (C) COMMENT. Hit hard by declining exports, Taiwan's economy is not yet showing signs of a turnaround. As a result, Chen is concentrating on efforts to assuage unemployment and bolster the reeling DRAM and LCD industries.
END COMMENT.

SYOUNG